

**ECONOMIC
DEVELOPMENT
AND TRADE**

EUROPE 1992

Opportunities and Strategies for Alberta Business



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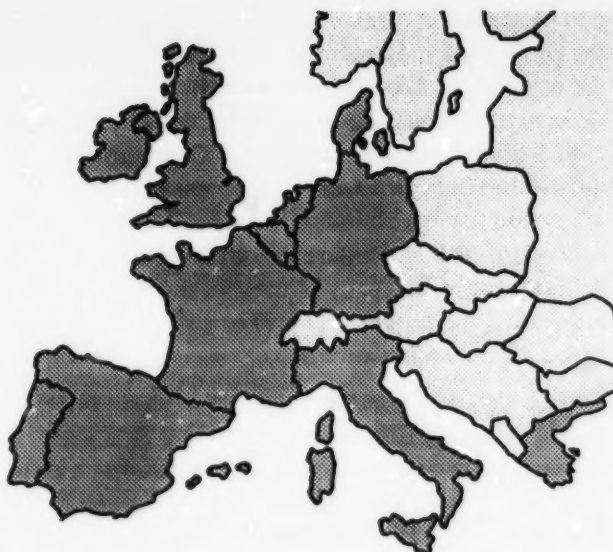
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THE NEW EUROPE

Europe is a rapidly changing market, presenting increased challenges and opportunities to Alberta companies. The twelve member countries of the European Community are creating the world's largest single market – with 350 million consumers and a gross domestic product equal to that of the United States – through a process known as "Europe 1992." Europe 1992 will reduce trade barriers between member countries and harmonize regulations and standards, resulting in more efficient production and marketing of goods and services.

This document will assist Alberta exporters to develop strategies for marketing in the new business environment of the European Community. It will allow current and potential exporters, in particular those in small and medium-sized companies, to assess the opportunities and challenges resulting from Europe 1992 and to plan new strategies for competing in this important market.



OVERVIEW OF EUROPE 1992

The Concept

The European Community was formed in 1967 from three common markets that had been operating in Europe since the 1950s. Two of these – the European Coal and Steel Community and the European Atomic Energy Community – were sectoral common markets. The third was the European Economic Community (EEC), which was a broad common market established by the Treaty of Rome in 1957.

The fusion in 1967 of the institutions of the three communities represented a high point in the European Community's early development. Soon afterward economic problems, an increasing lack of confidence and vision as well as the difficult absorption of three new members – Britain, Ireland and Denmark – stymied further progress towards creating the single market that the Treaty of Rome called for. At the beginning of the 1980s the free movement of goods was still hampered by border controls and

differing national standards, and the movement of services and capital was severely restricted. While labour did move relatively freely, national qualification requirements obstructed personal mobility for the self-employed. In short, ten years after the Treaty of Rome was supposed to have been implemented, there was no common market in Europe and much talk of "Eurosclerosis."

It was clear that something had to be done if the Community was to survive. In June 1985 the European Commission produced a White Paper that set out the essential measures needed to complete the common market as well as a timetable for the adoption of each measure. This White Paper was endorsed by the Council of Ministers, and an intergovernmental conference was called to draw up the Single European Act amending the original Community treaties. The amendments included a commitment to create by December 31, 1992, "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured *in accordance with the provisions of the Treaty.*"

The words in italics are important because they emphasize that the Europe 1992 process is nothing new. It is a relaunch of the initial effort to build a

common market. Unlike previous attempts to revive the process of integration, it has been enshrined in the treaties and is contained in a cohesive plan with definite time limits. The new elements of the Europe 1992 initiative are the extension of Community jurisdiction to health and welfare, research, technology and the environment and the Cooperation Procedure. This procedure introduces qualified majority voting for many of the measures needed to implement the program as well as giving a greater say to the European Parliament.

What is also new is that Europe 1992 has captured the public imagination and thereby acquired a momentum of its own. Some of the original measures in the White Paper have been overtaken by events and withdrawn, while a substantial number of additional measures have been proposed or adopted. The member states are also considering moving beyond a common market towards the creation of an Economic and Monetary Union. The result is that the Community is taking on an increasingly federal character as control over more and more areas of national life is transferred to Brussels.

Although there has been slippage in certain areas and although member states are being slow to translate Community directives into national legislation, the Europe 1992 process is now irreversible. There may not be a completely free internal market by January 1, 1993, but much will have been done and the rest will follow before the end of the century. Already this community of 350 million people and twelve countries has 20% of world trade, compared to 15% for the United States and 9% for Japan. As the single market is realized and the new opportunities in Eastern Europe are exploited, Europe will become an economic powerhouse.

The Process

The specific aims of the Europe 1992 process are the elimination of border controls on the movement of goods and persons (the *physical barriers* to integration); the harmonization of national rules that regulate and often impede the sale of goods and services from other member states as well as rendering inter-Community cooperation more difficult (the *technical barriers* to integration); and the narrowing of the divergences in indirect taxation that contribute to the

fragmentation of the Community market (the *fiscal barriers* to integration). These broad categories can be further broken down into specific subject areas:

Free movement of goods

- removal of physical barriers (including veterinary and phytosanitary controls)
- technical harmonization, including food, pharmaceuticals and medical equipment
- consumer protection
- energy

Free movement of persons

- removal of immigration controls
- labour and the professions
- social policy and education

Free movement of services

- banking
- insurance
- investment services
- transport
- broadcasting
- telecommunications and information technology

Public procurement

Free movement of capital and economic and monetary union

Industrial cooperation

- company law
- intellectual property
- direct tax harmonization
- competition policy
- research and development
- environment

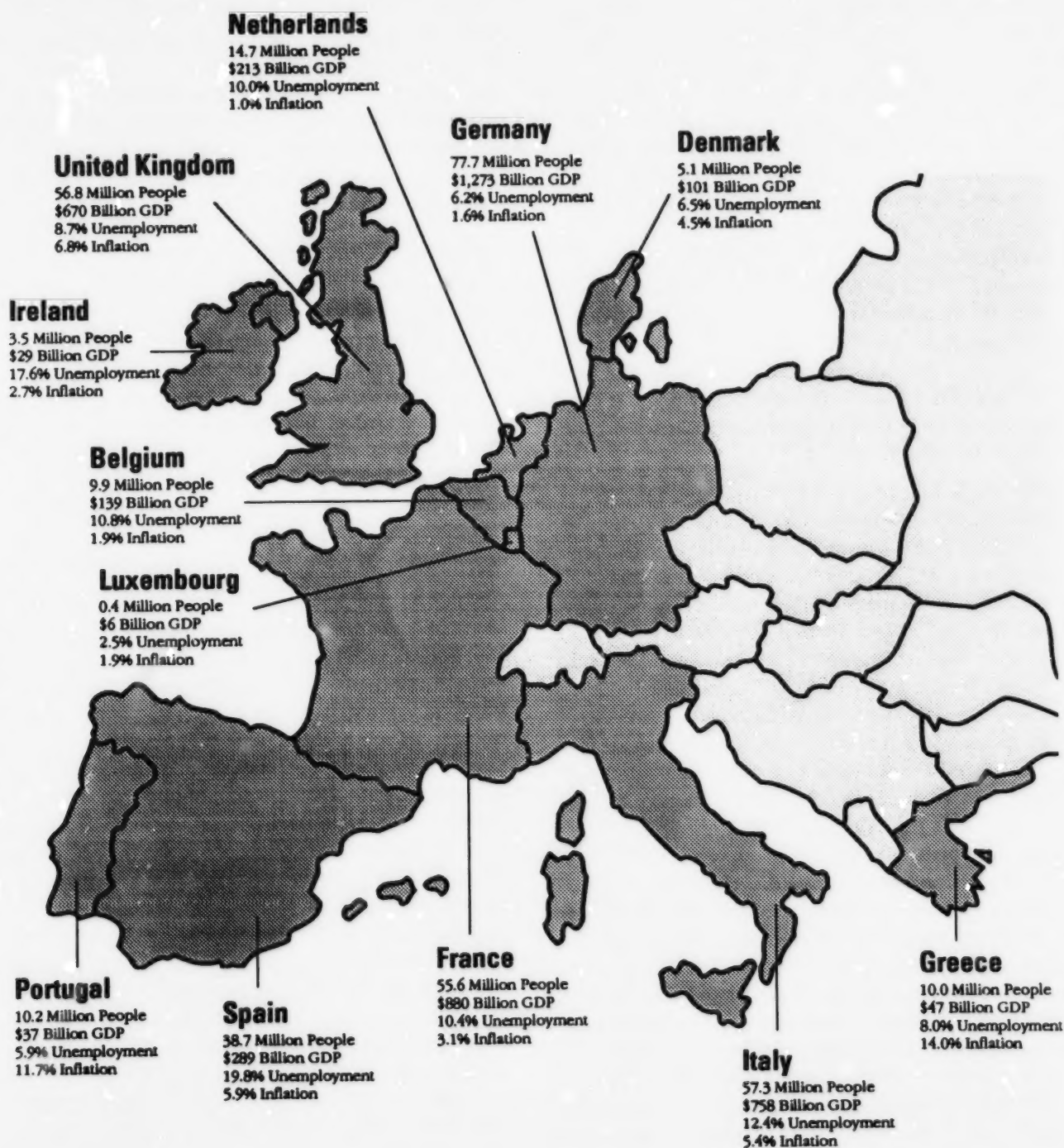
External dimension

- Community quotas
- reciprocity
- contingent protection
- local content rules.

Legislative Procedures

The Europe 1992 process does not interfere with the traditional forms of Community legislation, of which the two most common are *regulations*, which apply directly in all member states, and *directives*, which are essentially legislative blueprints addressed to the member states for enactment into national law. The Community has until now favoured the use of direc-

The European Community: Major Economic Indicators



Source: OECD Economic Outlook
(1987 data, U.S. dollars)

tives in its Europe 1992 legislative program, but the slowness of some member states in enacting them into national law has caused the Commission to move to a greater use of regulations.

The traditional procedure for enacting Community legislation is for the Commission to make a proposal, which is then forwarded to the Council and the European Parliament. In many instances the proposal must also be sent to the Economic and Social Committee. The Council cannot act on its own initiative and it must also await the opinion of Parliament before enacting a measure. In this procedure there are no time limits and the Council is free to deal with Parliament's opinion as it wishes. Many measures enacted by this procedure have to be taken unanimously. Outsiders wishing to influence the format of legislation can only lobby effectively at the Commission while the proposal is being drawn up and later by way of the national governments when it is being considered by Council. Parliament's role tends to be rather subsidiary.

The Single European Act adds to this traditional procedure a new cooperative proceeding, whereby the Commission's proposal is forwarded to Parliament for a *first reading*. The Council must then consider Parliament's opinion, which is often partly incorporated in an amended proposal from the Commission, and come to a *common position* by a qualified majority. From now on strict time limits apply. This common position is communicated to Parliament together with a statement of reasons for their respective positions from the Commission and the Council. Parliament can accept, reject or amend the common position in its *second reading*. If the common position is accepted, the Council should proceed to enact the measure. If the position is rejected, the Council can only enact the measure by unanimity. If amendments are proposed by Parliament, the Commission must present a re-examined proposal to the Council which the Council may or may not enact into Community law. This procedure gives a much greater role to Parliament and to the Commission, which is cast in the role of mediator between Parliament and the Council. The opportunities for lobbying in this complex interplay of Community organs is much more extensive.

THE EUROPE 1992 PROCESS

Free Movement of Goods

There are four aspects of the Community's program to secure the free flow of goods: the elimination of physical barriers, technical harmonization, consumer protection and the creation of a common market in the energy sector.

Elimination of Physical Barriers

Goods are controlled at border entry points within the Community for a variety of reasons: to enforce national transport quotas and safety regulations, to collect domestic consumption taxes, to check on goods in transit, to enforce national quotas and other restrictions against third-country goods, to collect statistics on intra-Community trade, to apply veterinary and phytosanitary controls and to operate the Community's complex system of monetary compensation amounts within the context of the common agricultural policy.

The first stage in the Community program has been to simplify the existing formalities. The ultimate aim is to abolish systematic border controls altogether by December 31, 1992. To this end the provision of transport services is being liberalized to eliminate the quotas, and safety regulations are being harmonized. On the thorny subject of indirect taxation, there is still no agreement on the alignment of rates but an arrangement seems to have been made that will permit the elimination of tax collections at the border. In the case of commercial transactions, value-added tax (VAT) will continue at first to be collected in the importing state, but it will be up to the importer to report the transaction and pay the tax. It is expected that individual travellers will pay VAT in the country where they purchase the goods. The duty-free allowance regime will be scrapped. For goods subject to excise duties – tobacco and alcohol products, for example – there is to be a system of linked bonded warehouses. Monetary compensation amounts and controls on goods in transit are to be abolished, and an alternative system of collecting statistics on intra-Community trade has been proposed.

The remaining two matters are of particular concern to third-country exporters. National quotas and other restrictions on third-country goods, which are at present permitted under Article 115 of the Treaty of Rome, are to be abolished. This leaves two possibilities; either the quota will disappear altogether or it will be re-instituted at the Community level. Most national quotas and other restrictions, however, are directed against Japan, Eastern Europe and developing countries and should not be of critical importance to Alberta.

It is the issue of veterinary and phytosanitary controls that most concerns Alberta exporters. The Community's ultimate aim is to bring about a uniformly high standard of health for livestock, meat and plants so that controls on their movement are no longer necessary. In the short term, the Community will have to preserve controls but intends to shift them away from the border.

As far as meat products are concerned, health checks will be carried out at the place of production and verified at the point of destination on the basis of health standards that will continue to be harmonized. The problem of diseases in livestock is being dealt with by an ambitious program to eradicate major diseases throughout the Community. Control is to be maintained through the concept of disease-free regions for serious cases and disease-free herds for the less serious. Albertan exports will benefit by being controlled only once upon entry, but the advantage of having only one harmonized health standard to meet may be offset by the expense involved in meeting it and the loss of markets where the standard was lower. Problems such as those caused by the Community's rules on slaughterhouses and hormone-free meat are likely to multiply.

The situation with plants, including seed potatoes and oilseeds, is similar. Health standards will be harmonized; however, for the short term, movement within the Community will be subject to inspection at the place of production and the granting of a Community "plant passport." Only third-country produce that meets Community health standards will be allowed to move through transit member states, and the present national derogations from existing Community standards will be phased out. These measures may have an adverse effect on some Alberta exports.

The area of veterinary and phytosanitary controls is

extremely complex, and there has been serious slippage in the Europe 1992 timetable. The Commission is stretched very thin and it is unlikely that the program will be completed on time.

Technical Harmonization

General Program

The existence of different technical regulations in the various member states is one of the most serious barriers to the free movement of goods in the Community. The Community originally planned a comprehensive harmonization of all industrial product standards, but this proved impossible. However a 1978 decision of the European Court of Justice (the *Cassis de Dijon* case) declared that only those national regulations that were demonstrably necessary to protect essential public interests could be used to refuse entry to goods coming from other member states. This meant that it would be sufficient for the Community to harmonize only these essential requirements, which it is now doing as a central part of the Europe 1992 program.

The so-called "New Approach" directives set down the essential requirements of public health and safety as well as consumer and environmental protection for whole categories of industrial products. Any product that meets them can circulate freely throughout the Community. To meet these harmonized requirements products must conform to the appropriate European standards or, as a transitional measure while the Eurostandards are being drawn up, national standards. Conformity may be established by self-certification or testing by a national body. The Commission has recently proposed legislation to harmonize these procedures.

Nevertheless, even with this new approach it is unlikely that the Community will be able to harmonize all product areas in time. For this reason the amended Treaty of Rome provides that, where possible, there will be mutual recognition among the member states of the national regulations on essential requirements that remain unharmonized by January 1, 1993. The Commission is at present concentrating its harmonization proposals in the more complex and controversial areas.

Alberta products will also be able to circulate freely if they meet the requirements of the relevant harmonization directive and are in free circulation within the Community. They will first have to enter a member

state, which could, if it wished, also make the products conform to its own purely national regulations. The method by which the product establishes conformity with the required standards is also at present a matter for the member states to decide. It is important, therefore, for Alberta exporters to choose carefully their point of entry into the Community.

The Community is also encouraging the development of Eurostandards as part of the Europe 1992 process. This is not only because these standards are required in the long term to establish conformity with the harmonization directives, but also because national standards, even where not mandatory, can still form barriers to trade. Insurance companies, for example, will often make payment contingent upon goods meeting national standards, and public bodies often cite national standards in their tenders. This latter practice is now prohibited for tenders coming within the Community's public procurement regime. The European standards bodies charged with elaborating the new Eurostandards are the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). The United States has made unsuccessful efforts to sit in on the deliberations of these bodies, as the concern on this side of the Atlantic is that standards will be drawn up that are incompatible with present North American standards.

The final element in the Community's general technical harmonization program is the mutual recognition by the member states of conforming products from each other. The New Approach directives provide for this in the specific areas they cover, but the Community wishes to establish a general system and a recent Council Resolution indicates that it may take the form of a Community certification procedure. This would eliminate the present differences in approach among the member states. The Community has also indicated that it would be prepared to consider mutual recognition in the case of third countries on a reciprocity basis.

Sectoral Harmonization

In addition to its general harmonization program, the Community also has particular programs for motor vehicles, agricultural vehicles, foodstuffs, pharmaceuticals, chemicals and construction products. There is also a high-technology harmonization program affecting telecommunications, computers and broadcasting.

The Community's food harmonization program will be of particular interest to Alberta. As with its general program, the Community at first attempted a comprehensive harmonization of the composition of foodstuffs. This also quickly bogged down. As part of the Europe 1992 initiative the Community has adopted a more general approach in order to set down minimum harmonized standards that foodstuffs must meet to circulate freely within the Community. This approach concentrates on a more informative system of food labelling and on setting general food safety and hygiene standards. Framework directives have been adopted setting out the Community's approach to additives, materials that come into contact with food, foods for particular nutritional uses and labelling. There are also directives or proposals dealing with quick-frozen foods, irradiated foodstuffs and food inspection. Proposals on organic foods are expected in the near future.

In the pharmaceuticals sector there has been an ongoing attempt since 1965 by the Community to harmonize the national registration procedures and to cut down on the duplication of testing requirements. These rules have now been extended to all pharmaceutical products as part of the Europe 1992 process, but the ultimate goal is to establish a new approval regime that will permit a product to be marketed throughout the Community on the basis of one registration. The Community is still considering whether the system should be a supra-national one like the Food and Drug Administration (FDA) in the United States or based on the mutual recognition of national registrations. Another aspect of the Community's pharmaceuticals program is a directive dealing with price transparency and listing in national medicare schemes. This is extremely important given that most pharmaceuticals are bought by national authorities in Europe, who also set their price.

As far as medical equipment is concerned, there are various directives planned as part of the New Approach. So far the Council has reached a common position on a directive on active implantable electro-medical equipment. Other proposals will involve active non-implantables, non-active products and in vitro diagnostic products. Once again products from Alberta will be able to circulate freely once they have entered the Community.

Consumer Protection

The Community has adopted a number of measures harmonizing consumer protection throughout the Community, including a product liability directive which establishes a strict liability for manufacturers. There are also directives on price indications on products, and a general product safety directive has been proposed. Strict new rules on the marketing and advertising of tobacco products have been enacted, as well as safeguards for people using package travel programs.

Energy

The creation of a common market in energy has not as yet made much progress. The Commission proposed in late 1989 three initiatives to open up the market in gas and electricity, but little action has been forthcoming. One interesting point is that the Commission has recently come out in favour of the greater use of natural gas and raised the possibility both of repealing Directive 74/104 that limits the use of gas in power stations and of making it easier to use third-country suppliers. Canada was not, however, among those mentioned.

Free Movement of Persons

This is not an area of concern for countries outside the Community except to the extent that investors in the Community should be aware of the extensive Community legislation on health and safety in the workplace.

Free Movement of Services

Financial Services

The common market in financial services in the Community is to be based on a minimum harmonization of supervision standards, the mutual recognition of each member state's supervisory regime and a freedom to provide services throughout the Community on the basis of home state authorization and prudential supervision. The directive on banking has already been enacted, but the proposal on investment services is still being discussed. As yet the insurance initiatives are more limited in scope and do not include mass risks. Reciprocity is also an issue in these latter two areas.

Transport

This is not an area that will be of direct interest to Alberta except perhaps for the air industry, which is about to go through the second phase of its deregulation. The Community has already announced its plans for a third deregulation and has indicated that it would be prepared to extend the benefits of deregulation to third countries on a reciprocal basis.

Broadcasting

The Community has finally adopted its controversial broadcasting directive, but the operation of the articles requiring the majority proportion of air time to be reserved for European productions and directing television channels to devote at least 10% of their air time and budget to broadcasting and producing their own material has been suspended for five years. Most of the opposition has come from the United States, but these provisions could also hurt Alberta's fledgling television industry.

The Community has also adopted both a High-Definition Television standard and common technical specifications for direct satellite television broadcasting. As with other high-technology areas, the harmonized standards are comprehensive to ensure the compatibility of equipment.

Telecommunications and Information Technology

The Commission's aim, as far as telecommunications is concerned, is to liberalize the market for both terminal equipment and value-added services, separate the regulatory and operational functions of government telecommunication bodies and submit them to the full rigour of Community competition law and to harmonize technical standards.

The Commission's plans were not shared by all member states and they ran into opposition in the Council. The Commission has attempted to take matters into its own hands by using a provision of the treaty to enact two directives itself, one liberalizing the terminal equipment market and the other value-added services. It looks as though the Court of Justice will strike the two directives down, but following a compromise reached in November 1989 the two directives will probably be re-enacted by the Council, albeit with some modifications. In the services directive, for example, voice and telex remain completely and digital switching services remain partially under monopoly control.

The Community's technical harmonization program is proceeding more smoothly, and another standards body has been set up to elaborate the necessary Eurostandards. This time the Community has agreed to a system of formal liaison with the United States and Japan. The Community's harmonization program covers terminal equipment, the integrated services digital network, cellular telephones and access to the telecommunications network.

In the information technology field the Community has been working on the Open Systems Interconnection (OSI), which facilitates computer compatibility. As from February 1987 public tenders must specify OSI standards.

Public Procurement

The public procurement market in the European Community is worth over 500 billion ECU per year, but the Community's original measures, taken in the 1970s, to open this market up did not prove very successful. As part of the Europe 1992 initiative, the Community has overhauled the existing rules for public works and public supply contracts by increasing the transparency of the tendering process and by extending the use of open tendering. The two new directives also mandate the use of the European standards where they are available and curtail substantially the use of national standards.

The Council has also adopted a directive extending the Community procurement rules to the previously excluded sectors of telecommunications, water, transport and energy. The new amended proposal will, however, still exclude the exploration and production of hydrocarbons. The supply of gas and electricity is not covered until 1995. The Commission is planning to make a proposal by the end of 1990 to liberalize government procurement of services. It also wishes to operate on a community basis the present national system of favouring bids from under-privileged regions.

The Community took a significant step in December 1989 to secure the application of Community procurement rules when the Council enacted the compliance directive. This directive obliges member states to allow bidders who consider that their bid has been rejected wrongfully to make an appeal to the courts or some other authority. If the appeal is successful, the bidder is entitled to damages and the tender may be set aside.

Alberta companies have access to the Community's public supply and public works market by virtue of the General Agreement on Tariffs and Trade (GATT), but although they can take advantage of the obligation for publication in the Official Journal under the Community rules, they are not entitled to benefit from these rules directly unless they incorporate a subsidiary in the Community. The new directive on the previously excluded services falls outside the GATT rules, and includes local content and Community preference rules that would apply even to European subsidiaries of third-country enterprises. However, these provisions were opposed in the Council by Britain, Germany and the Netherlands and they remain to be clarified before the directive is finally adopted. Similar rules are expected in the Commission's service proposal.

Free Movement of Capital and Economic and Monetary Union

This is an area which demonstrates how the momentum that the Europe 1992 process has generated has overtaken the original concept in the 1985 White Paper. Originally the Commission did not even plan for the complete liberalization of capital movements, but the directive providing for this is to take effect on July 1, 1990, with a later date set for Spain, Portugal, Ireland and Greece.

Now the Community is considering a further move to full economic and monetary union. An intergovernmental conference is due to be held late in 1990 to discuss the necessary amendments to the treaties. The first stage is already being prepared and will consist of a greater convergence of economic and monetary policy and an enhanced role for the Committee of Central Bank Governors. The eventual aim is to proceed to irrevocably fixed exchange rates and ultimately a common currency with a common monetary policy that will be managed in a way yet to be decided by the Community organs and a future European Central Bank. The advantage of having one currency will most benefit intra-Community traders, but there will be some advantage for third country exporters who export to more than one member state.

Industrial Cooperation

One of the main motives for creating the single market in Europe is to enable European industry to become more efficient and competitive. Thus a necessary corollary to those measures that create the single market are steps to permit and encourage cooperation between Community enterprises. The Community is doing this by modifications to national laws that obstruct intra-Community activity, by strengthening and adapting the Community's competition laws, by establishing a Community environmental policy and by encouraging and funding joint research and development.

Company Law

The Community had already made substantial progress at harmonizing corporate law before the Europe 1992 process was launched, including the regulation setting up the European Economic Interest Grouping (EEIG). The EEIG permits companies to cooperate in any activity in which they have a common interest. It has a separate legal personality, but only the constituent companies can hold shares in it. It cannot conduct any independent activity but must be used to provide a common service such as R&D, market research or advertising for its member companies. All profits must flow directly to the member companies. It is intended as a vehicle for intra-Community corporate cooperation, but the Commission is also pushing for the Community to create a fully-fledged Community company.

Alberta investors may also be affected by directives related to the accounts of branches and small and medium-sized businesses, to the one-man company and to takeovers. The branches directive would excuse an Albertan subsidiary in Europe from filing separate branch accounts as long as the parent's accounts were laid out in a form satisfactory to the Community. The Commission proposal for broadly harmonized procedures for takeovers is likely to be enacted by the Council in 1990 but without the reciprocity clause requested by the Economic and Social Committee. Worker participation is still a controversial issue, but any provision for it at the Community level will only affect larger companies.

Intellectual Property

The need to take out separate protection for intellectual property in each member state is not compatible with a single market, particularly where the national laws are inconsistent. The Community plans to introduce a Community patent and Community trade mark, but at present these projects are held up by political and legal wrangles. The Community is, however, moving to harmonize national trade mark laws and to provide protection at the Community level for semiconductor products, computer software and biotechnological inventions.

Direct Tax Harmonization

Recently the Community agreed on some far-reaching tax directives that will prohibit withholding taxes on dividends paid to parent companies and provide tax reliefs for many forms of cross-border reorganization. Further measures are forthcoming on the abolition of withholding taxes on interest and royalties, the right of parent companies to write off the losses of branches and subsidiaries in other member states and the standardization of the rules for calculating tax losses. In addition there is to be a directive on the harmonization of corporate income tax and the elimination of double taxation of cross-frontier transactions.

Competition

In preparation for the single market the Community has recently adopted a Community merger regulation, and the Commission has been busy updating its competition policy with respect to joint ventures, licensing, distributorships, franchising and the licensing of know-how.

The Commission is very vigilant in the application of Community competition law, and any Alberta company dealing with Europe should be aware of the broad outlines and procedures of Community competition law.

Research and Development

The Community has long been involved in funding collaborative research and development by Community firms, but the importance and significance of its efforts in this area were finally recognized when research and technical development was added as a separate title to the Treaty of Rome by the Single European Act. The present five-year framework program (1990-1994) was adopted pursuant to this new provision.

The main lines of R&D activity in the Community at present are the quality of life, information and communications, modernization of industry, exploitation and optimal use of biological resources, energy, science and technology, sea-bed exploration and marine resources and improvement in European scientific and technological cooperation. Particular programs that may be of interest to Alberta business are ESPRIT (information technologies), RACE (advanced communications technologies), AIM (advanced informatics in medicine), the Fourth Health R&D Program, the Predictive Medicine (Human Genome Analysis) Program, BAP (biotechnology), ECLAIR (linkage of agriculture and industry through research), FLAIR (food-linked agro-industrial research) and BRIDGE (biotechnology research).

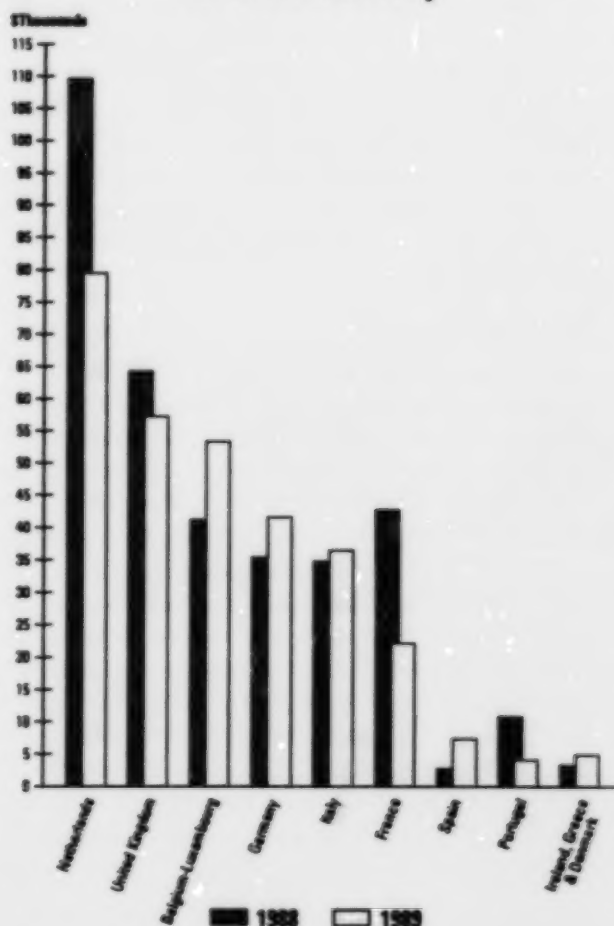
The Community's R&D programs are the spearhead of its drive to create new competitive industries in Europe; hence foreign companies are not welcome unless they have something to offer and the program provides for such participation. Nevertheless, foreign companies that are established in Europe are entitled to participate, particularly if they are European subsidiaries. Any research project, however, must be carried out in facilities in the Community.

Environment

Both for the negative reason of preventing distortions in the conditions of competition and for the positive reason that an effective environmental policy needs to be pursued on a Community basis, this is an area that has now been recognized by the Single European Act as falling within the competence of the Community.

Since 1985 the Community has been very active on a variety of fronts, including atmospheric and chemical pollution as well as waste management. Some of these measures may hurt exports to the Community, as for example in the forestry sector where the requirement for higher levels of recycled fibres is likely to be strengthened. However, there may also be opportunities in such areas as the treatment and disposal of waste.

Alberta Exports to the European Economic Community



OPPORTUNITIES AND CHALLENGES FOR ALBERTA COMPANIES

The Europe 1992 process presents many new opportunities for foreign companies in terms of both markets and marketing approaches. There are also disadvantages that may flow from the creation of the single market, particularly for small foreign companies like those in Alberta. Nevertheless, the overall effect of Europe 1992 should be positive for Alberta companies, who may achieve a new breakthrough into the European market if they can rise to the challenge.

New Markets

New markets are already emerging in Europe as a result of a variety of factors. In the first place the creation of the single market is having an enormous economic impact. It is expected to save industry billions of dollars through the abolition of administrative formalities and increased economies of scale. Further billions of dollars of public money will be economized by the opening up of the public procurement market. Up to 5 million new jobs may be created, and prices are forecast to drop by as much as 6%. All this adds up to a dynamic economy that will be able to absorb foreign products and play a role similar to that of the United States in the 1950s and 60s as the motor of international trade. All member states are likely to share in these economic benefits, although there will continue to be disparities between them.

The creation of one Community market out of twelve individual national markets is sweeping away some of the old protectionist national rules. Harmonization is replacing idiosyncratic and self-serving technical regulations, food laws and consumer protection and environmental requirements with common European norms. National restrictions on the provision of cross-border services are being abolished and strict new rules are now in place to ensure that public contracts are awarded on a neutral basis. In addition the Community public procurement rules are about

to be extended to the water, energy, telecommunications and transport sectors. All this will make the Community as a whole a more attractive market, as well as opening up previously inaccessible national markets. For exporters to the Community, new opportunities will also arise as a result of the abolition of national quotas and other restrictions against non-Community goods, as long as the measures are not reinstituted at Community level.

The opening up of government monopolies to private competition, which is another important element in the Europe 1992 program, could create splendid opportunities in the telecommunications, transport and energy sectors for Alberta suppliers. Opportunities may also be found in the Community's tough new environmental guidelines. Information technology is another area that the Community is expanding.

These new opportunities are not without accompanying problems. The competitive environment, for example, is becoming much tougher as more foreign companies are attracted to the Community market and Community firms adapt and prepare themselves to defend their market. In such a situation the small Alberta company can find itself at a disadvantage against better-equipped foreign competitors and Community firms that enjoy new freedoms and rights that are not available to the outsider. It must be realized that Community law applies only to Community companies, although it does extend to third-country goods that have been cleared for entry into the Community. In order to benefit from the Europe 1992 process, it may be necessary to incorporate a Community subsidiary, particularly in the case of firms wishing to provide cross-border services within the Community or go after public procurement contracts that are not covered under the General Agreement on Tariffs and Trade (GATT).

Two other potential problems concern the European harmonization process. While it has many positive aspects, this process may also hurt Alberta exporters where the European standards differ considerably from those in North America. This is a particular concern in the telecommunications and other high-technology areas, where fears have been expressed by representatives of North American industry that the Community is defining new norms in order to protect its market against outside competition. European harmonization can also have a negative impact where it eliminates national niche markets that

depended upon favourable national rules. This is a problem being faced by some provincial potato producers, who are finding that the higher uniform standards are threatening their niche market in Italy.

Different sectors of the Alberta economy will not all fare equally, but the overall impact of Europe 1992 should be positive if the opportunities are grasped. The telecommunications, pharmaceuticals and medical equipment sectors should benefit from the harmonization and liberalization measures. The engineering sector will be presented with many more opportunities, although some may require setting up a local subsidiary or joint venture. The agricultural sector should also benefit from the food law harmonization program, but it could suffer increased expenses and some loss of market niches as a result of the higher European standards. The Community's tougher environmental policy could hurt the forestry industry while at the same time providing new opportunities for firms involved in such activities as waste disposal or the production of environment-friendly products or processes.

New Strategic Possibilities

The removal of border controls will eliminate national administrative formalities that fragmented the Community market into national preserves and cost so much time and money, such as:

- goods will no longer be checked for compliance with national rules;
- transport quotas are abolished and safety regulations harmonized;
- responsibility for value-added tax (the European equivalent of the proposed GST) on imported goods is now placed on the importer who must report the transaction and pay the tax;
- national measures against third-country goods are to be eliminated;
- controls on goods in transit within the Community are to disappear. In the area of veterinary and phytosanitary controls, the Community's ultimate aim is to bring about a uniformly high standard of health for livestock, meat and plants so that controls on their movement are no longer necessary. In the short term the Community will have to preserve controls, but intends to shift them away from the border.

The effect of this ambitious program is to create an area in which goods can move freely between all member states so that it will now be possible to treat the Community as one market and to establish production, distribution and licensing arrangements on a Community basis. In addition, the harmonization of industrial standards, consumer protection and environmental legislation and food laws will enable one product to be marketed in all twelve countries on the basis of one standard. For the exporter, this makes it even more imperative to organize on a Community level in order to benefit from the economies of scale and savings that such a uniform system makes possible. Once a common regime is in place for pharmaceutical products, for example, it could open up considerable opportunities for Alberta's fledgling industry.

The new strategic possibilities are further reinforced by developments in the business legal environment. A uniform Community law will enable companies to protect their proprietary interests in all twelve member states. One Community patent or trade mark will provide effective and uniform protection over the whole market, facilitating a global approach, particularly with respect to licensing. Other developments concern primarily corporate and competition law.

The harmonization of national corporate and securities laws has standardized formation, accounting and disclosure procedures for companies, permitted general use of one-man companies and established some common rules for listing and trading in securities. Recently the Community agreed on some far-reaching tax directives that will prohibit withholding taxes on dividends paid to parent companies and provide tax relief for many forms of cross-border reorganization. Further measures are forthcoming on the abolition of withholding taxes on interest and royalties, the right of parent companies to write off the losses of branches and subsidiaries in other member states and the standardization of the rules for calculating tax losses. In addition, there is to be a directive on the harmonization of corporate income tax and the elimination of double taxation of cross-frontier transactions. A proposal has also been made that would permit a company to be incorporated on a community basis, but this project has met with considerable opposition. Nevertheless the measures in place will eliminate to a great extent the national obstacles to cross-border planning and provide a

legal framework for companies to tackle the Community as one market. By replacing variable national standards with Community rules, they also give the foreign investor a greater freedom of choice about where to incorporate and launch a company in Europe.

The Europe 1992 process has also seen a strengthening of the Community's competition law, which is directed against all corporate practices that fragment the Community market. This law has the potential to affect any agreement with joint venture partners, distributors, agents, licensees, franchisees and even sales customers. This law promotes a unified approach to the Community market by preventing some arrangements to divide it up. It does this by placing limits on the extent to which joint venture partners can share out the market or to which distributors, licensees and franchisees can be given exclusive rights or subjected to territorial limitations. This will not have a major effect on Alberta companies, most of which are small or medium-sized.

The effect of the Europe 1992 process is not only to create the possibility for tackling the Community market as a whole, but also to make this necessary in order to remain competitive. No company active in the Community market can afford not to take advantage of the savings afforded by the creation of a single market by broadening its market coverage and rationalizing its operations. This creates the need to adapt existing marketing strategies or, for first-time exporters, to develop appropriate starting strategies. For Alberta companies with limited resources and expertise at their disposal, finding the right marketing strategy represents the greatest challenge posed by Europe 1992.

MARKET ACCESS STRATEGIES

Types of Strategies

There are three ways of accessing a target market. Goods or services can be produced in Canada and exported, or they can be produced abroad for sale in the target market. The third possibility is to contract out the right to produce and sell a product to someone else (a licensee or franchisee).

Exporting Goods or Services

When goods are exported, they can be sent directly to the foreign customer or sold to an intermediary in the target market who will then distribute them. Distributors often also provide after-sales service and even credit facilities. Direct exporting often occurs in response to unsolicited orders. Where it is used to implement an active sales effort, agents or company representatives are needed to find customers. As companies become more involved in and expert at selling abroad, foreign sales offices should replace or complement the use of agents or representatives. Similarly, foreign marketing companies should eventually be set up to handle some or all of the distribution of goods.

Services can also be exported, but for obvious reasons they cannot be distributed by a foreign intermediary. In addition, it may be necessary to provide some services, such as engineering, from a temporary foreign base. Other services, in particular restaurant and other consumer services, cannot be exported at all but must be provided from a permanent local establishment.

Foreign Production of Goods or Services

The foreign production of goods and services for sale in the target market can be carried out in one of two ways. The most effective but also the most costly and risky method is to set up a foreign production facility. A variation of this approach is to establish a joint venture with a local or Canadian partner. This will reduce costs and bring about synergies in marketing, production, R&D and other functional areas. In the case of a local partner, it should also provide access to local knowledge and contacts. International joint ventures are, however, very risky and often fail. In addition there is always the danger of creating a future competitor and of losing control over technology and other assets.

Contracting, Licensing or Franchising

An alternative to setting up local production facilities is contract manufacturing. Here a foreign manufacturer contracts to produce the goods for the Canadian company, which then sells them in the target market. It is a relatively cost-efficient and risk-free strategy, although there is some reduction in profits and a danger that the contract manufacturer could later use the technology to become a competitor. Quality control may also be a problem. Also, once the con-

tract has been agreed, the Canadian company is obliged to take the goods. For these reasons contract manufacturing is a second-best strategy, but it does offer small companies that need to produce abroad a feasible alternative to setting up their own facilities. It is particularly useful for all sizes of companies where local content rules must be met for a market whose sales potential does not warrant investing abroad.

Licensing involves giving up the right to produce and sell goods or services (in which case it is normally called "franchising") in a foreign market to another manufacturer or service provider in return for an initial fee plus annual royalties. Pure licensing is a cheap and safe way of accessing a foreign market, but the disadvantages are such that under most circumstances it is an inferior marketing strategy. It substantially reduces profits, it creates a possible competitor and it deprives the manufacturer of control over the production and sale of the product.

Franchising is different from pure licensing as it entails the use by the franchisee of the franchisor's whole business operation. Here the danger of creating a competitor is less, and profits can be increased by supplying the franchisee with goods as well as management, technical and training services. In the case of consumer services, where rapid market spread is more important than market penetration, franchising is not only less expensive but also more effective than setting up one's own facilities.

Choosing a Marketing Strategy

Lack of information, financial constraints and inexperience lead many small companies to adopt the simplest way of accessing foreign markets. Direct exporting, often with the assistance of foreign agents, and licensing are the chosen strategies even where they are clearly sub-optimal.

An effective international marketing strategy requires some differentiation of strategy according to the target market. There is no need for elaborate and expensive research if the company cannot afford it. In fact, it is possible to set up an overall strategic plan using a very simple procedure that takes into consideration the constraints under which most small companies must operate. These constraints are perhaps even more in evidence when dealing with

the European Community, which will constitute for many small Alberta firms a second priority market after the United States.

The procedure is based on two assumptions; firstly, that the small Alberta firm will prefer to export rather than produce abroad and secondly, that it is a sound business decision to consider licensing only in certain situations.

The first step is to determine the target markets, which can be done by considering such factors as economic prospects, market potential, legal rules bearing on access, distance, culture, competitive environment and political risk. Once the markets have been identified, the firm should consider first of all which markets would require the establishment of local or near-by production facilities. The following is a list of factors that require or strongly favour foreign production facilities:

- high transportation costs
- consumer services
- significant lower foreign production costs
- hostility to foreign products in target market
- local content rules
- need for extensive modifications requiring retooling and perhaps skills unavailable domestically
- high tariffs, quotas and other entry restrictions, including those on the provision of cross-border services
- public procurement rules favouring insiders
- danger of exchange rate depreciation in target market.

If a company is faced with one or a combination of these situations, it may have to produce abroad. If a production facility is not feasible, the other alternatives are a joint venture or contract manufacturing. Normally the latter is an affordable option even for smaller companies, but it is very rarely utilized by them. All too frequently companies resort instead to licensing, which is another way of producing abroad. This method, however, should normally only be considered as a last resort.

This procedure identifies target markets where local production is necessary and others where exporting remains a viable option. For export markets it will still be necessary to decide on the form of the export marketing strategy. In the early stages the choice is between direct exporting combined with agents and

the use of distributors. There are three advantages to using distributors. Firstly, they know the market and may be able to sell in it more effectively; secondly, they can provide after-sales service, which may be required by law, and credit facilities; and thirdly, it permits the exporter to sell to one point and thereby save time and money. The disadvantage with distributors is that the exporter must rely on them for making the sales and has no control over what happens in the target market. The use of agents, on the other hand, permits the exporter to retain a much closer control over foreign operations (even more so if the agents are employees of the company) but the

advantages of the distributor are lost. The ideal solution is to set up a marketing company to perform the distribution function, but this is a strategy that is beyond the resources of many smaller firms. A possible strategy for small companies that wish to retain full control over their foreign operations is to use agents initially and then to open a sales office in the target market in order to supervise the local agents and gain the experience and knowledge which will permit them later to set up a marketing company. Both sales offices and marketing companies can be used to complement a network of local agents.

Marketing Strategy Process



The next step in the procedure is to consider where licensing is to be used in preference to either exporting or local production. Alternatively this step can be carried out first so that these markets can be eliminated from further consideration, but the problem with this approach is that a company may only wish to consider licensing as an alternative to one of the other modes of access, normally local production. As it is an inferior strategy, licensing should be restricted to these situations:

- low priority market and company wishes to concentrate all its resources elsewhere
- company wishes to achieve rapid market spread over large area
- target market exhibits large cultural distance
- product is late in its life cycle and company wishes to concentrate on newer products
- company suffers from extreme resource constraints.

In the case of services, a company may want to consider franchising as a first step as this is often the best way of accessing a foreign market. However, this is a strategy that is only open to established firms, as franchisees will normally want to take on proven products.

By following this procedure the company will have established the appropriate strategy for its various target markets within its overall resource limitations. This will be either *exporting* (agents or distributors, possibly local sales offices and even marketing subsidiaries), *local production* (subsidiaries, joint ventures or contract manufacturing) or *licensing/franchising*. The final steps in the procedure are to rationalize the strategies and prioritize the markets.

Rationalization, which should take place first, involves integrating the strategy on a regional basis. If a company's strategy calls for the establishment of sales offices in a number of neighbouring countries, normally one sales office will suffice backed up by a network of local agents. Similarly, where it has been decided to export directly to a group of countries that are geographically close, it may be better to use one as a base from which to distribute to the others. It also makes little sense to service a foreign market by exporting or licensing if the company plans to set up local production facilities nearby.

Prioritization involves ranking the target markets according to their importance. This is important where the company is unable to realize the whole of its strategy because of cost or human resource prob-

lems. It should tackle the higher priority markets and either leave the lower priority ones for later or adopt a less demanding way of accessing them. Licensing is a common choice in these situations.

EUROPE 1992 AND MARKET ACCESS STRATEGIES

The Need for a Wide Market Spread

The full benefits of the opportunities created by the Europe 1992 process and the savings that it makes possible by the abolition of internal administrative formalities and the harmonization of national rules will only accrue to those who target more than a few national markets. This does not mean, however, that only those companies that can afford a wide market spread should consider selling in Europe. It will still be possible to develop niche markets, but if the full potential of the Europe 1992 process is to be exploited, the Community will have to be tackled on a more comprehensive basis. Alberta companies that commit themselves to the European market should therefore try to cover as many member states as possible, even if this means using resources intended for other non-Community markets. In other words, if Europe is worth doing, it is probably worth doing properly.

In terms of access strategy, this need to obtain a wide market spread will ultimately entail setting up a marketing company in the Community and a network of agents. Direct exporting is not a good way to approach the Europe of 1992, and the use of distributors has several disadvantages.

Rationalization of Strategies

Europe 1992 means that it will be possible to produce one product for the whole Community and to move goods freely between member states using a more efficient, cheaper and improved transportation system.

The key to marketing in the new Europe is therefore rationalization. It will no longer make sense to service the Community market through systems of national distributors, licensees and production facilities. The savings from avoiding such duplication are too large to be ignored. In addition, Community corporate law will facilitate and Community competition law will oblige companies to conceive their marketing strategies on a Community basis.

There is, however, some disagreement as to the extent to which Community operations should be rationalized. Some believe that the market can be serviced from a single source, be that an agent, a licensee, a distributor or a production facility. Others emphasize the continuing importance of maintaining national marketing networks while centralizing production.

Except for obviously isolated markets, it is suggested that the single market is best exploited in the following ways. Production facilities should be centralized in order to exploit economies of scale unless extremely high production costs make this not feasible. The same principle applies to provision of services within the Community; they should be provided from one main Community establishment with branches being set up only where necessary to secure satisfactory market penetration.

Distributors and licensees are probably best organized on a regional basis – northern Europe, southern Europe, Greece, for example – unless one large distributor or licensee with links throughout the Community can be found. Marketing companies, whether subsidiaries or joint ventures, should not normally be duplicated. A cheaper and more effective strategy is to set up a network of agents that work in conjunction with the marketing company. The same is true of sales offices. Agents, on the other hand, should be set up on a national basis, as their value is normally their knowledge of the national market and its culture and language. Even in the new Europe there are major differences between nations, and it is still rare to find agents who can deal with more than their own country. Even using a Dutch person to service the Dutch-speaking part of Belgium could be a costly mistake.

The Need for Local Production

The Europe 1992 process has in some respects made it more imperative to produce goods or services within the Community. For smaller companies faced with choosing an access strategy for Europe, the need for local production arises in five particular situations:

- where there are Community quotas on the importation of the goods in question. Under the Europe 1992 process national quotas are being abolished, but they may resurface as Community quotas.
- where there are local content rules. The Community's proposed rules for public procurement contracts in the water, energy, transport and telecommunications sectors require 50% of the value of all parts and materials to originate in the Community. Non-conforming bids may be rejected by the national awarding authority and conforming bids must be preferred where they are not more than 3% higher in price. The new Broadcasting Directive stipulates that special time and money is to be accorded to work produced within the Community. In the case of public procurement contracts, contract manufacturing is a good alternative to setting up one's own facilities.
- where the new harmonized standards differ appreciably from Canadian norms and require extensive retooling and technical skills that are unavailable domestically;
- in the area of cross-border services. The benefits of Community law only apply to Community companies. Thus, if a foreign company wishes to avail itself of the new freedom to provide services across national borders within the Community in such sectors as banking, securities, insurance, broadcasting, transport, telecommunications or engineering, it will have to operate as an insider through a subsidiary or joint venture that is incorporated in one of the member states. Furthermore the services must be provided from a genuine establishment in a member state. They cannot be channelled into the Community through a box company. Branches do not qualify as they are considered legally an intrinsic part of the foreign company.
- the reciprocity provisions of some Community legislation now create a distinction between EC-owned and non-EC-owned Community companies and threaten to nullify the effect of local incorpora-

tion where Canada does not provide similar rights to Community companies. However, the provisions have been watered down considerably and affect mainly the financial areas. It is worth checking to make sure that local incorporation will secure market access, but the provisions should not overly affect Alberta companies.

- in the area of public procurement contracts. Apart from the local content requirements for certain contracts, third-country bids for all public contracts can be rejected where GATT rules permit. Thus, if an Alberta company wishes to enjoy the full benefits of the Community's public procurement regime, including its mandatory compliance provisions, it will have to operate as an insider.

The Effect on the Structure of Market Access Strategies

The Europe 1992 process will have specific effects on the various ways of accessing the Community market, with the greatest impact on exporting.

Competition Law

Community competition law aims to prevent the fragmentation of the single market by corporate practices such as market sharing, market exclusivity, territorial limitations and price fixing. These Community rules must be taken into consideration when structuring a market access strategy to make sure that they are not contravened. This is important as contraventions of Community competition law are punishable by heavy fines that can be as high as 10% of the aggregate turnover of the companies involved. In addition, any contravening agreement is automatically nullified.

There are, however, limitations on the application of Community competition law, notably that any contravening agreement must constitute a noticeable restraint on trade and must affect trade between member states. Thus, there cannot be a violation of Community law where the parties involved have a market share that does not exceed 5% or an aggregate annual turnover that is not more than 200 million ECU. This *de minimis* rule will protect most Alberta companies. Agreements whose effects are restricted entirely to one member state are similarly excluded. The wording is important here because certain

clauses, such those because involving exclusivity and territorial limitations, necessarily have an effect in more than one member state, and no agreement containing them will be excluded just because it is made with a party or parties from one member state.

Certain other agreements are also excluded from the sphere of application of Community competition law. Agency agreements are excluded as long as the agent is not acting as an independent trader. Arrangements between parents and subsidiaries and between companies and their branches are for the most part also excluded. Joint ventures that relate to such matters as joint market research, joint use of production, storage and transport equipment and some joint research and development are permitted. Joint ventures are not, however, excluded *per se*. Finally, contract manufacturing agreements that prohibit the sale to third parties of products made by means of the technology and know-how of the contractor are acceptable.

In the event that an Alberta company is not protected by the *de minimis* rules, one way of avoiding any problems is to request a negative clearance from the Commission, which is an undertaking by the Commission not to challenge the arrangement under Community competition law. If negative clearance is not possible because there is a violation of Community law, the company can apply for an exemption, which may be granted if the agreement in question is considered to improve the production or distribution of goods or to promote technical or economic progress within the Community. However, the practice must allow consumers a fair share of the benefits and it must not go beyond what is necessary to achieve its objective nor contribute towards eliminating competition in the products involved.

In addition to individual exemptions, the Commission has issued a series of block exemptions, which apply automatically to any practice that comes within the terms of the relevant regulation without the company having to make a specific application to the Commission. These block exemptions will affect distribution, licensing, franchising and know-how agreements. In essence they permit the grant of exclusive territories to distributors and licensees/franchisees subject to the right of others to fulfil orders emanating from the protected territories (so-called passive sales). Licensees and franchisees, however, may be protected against passive sales for a maximum of five years. In

the case of know-how licensees, the grant of an exclusive territory is limited to ten years. Suppliers and licensors/franchisors can agree not to compete in the exclusive territory for the duration of the agreement. Any attempts to set prices or other conditions for resale, or to restrict the range of customers in any of these agreements, are prohibited and will invalidate the whole contract.

Exporting

The harmonization of industrial standards, food laws and consumer protection and environmental legislation will affect the way exporting goods to the Community is carried out. Although all products in intra-Community trade that meet these harmonized rules can be marketed and sold freely throughout the Community, goods coming from third countries do not benefit from this regime until they have been cleared through customs in the member state of entry. Moreover, the entry state may require, in addition, that the third-country products conform to its purely national requirements.

The obvious strategy for the Alberta exporter under these circumstances is to channel all exports to the Community through as few member states as possible. This way the products will not have to be tested each time they enter a different member state. In addition, they will not be subject to numerous sets of national requirements. The exporter should make sure that the countries chosen as points of entry set few or no additional requirements.

This means that the direct exporting of goods using agents is no longer a valid way of exporting to the Community. Instead distributors should be used, and they should be set up on at least a regional basis. It is better, of course, to have one distributor as the whole object is to minimize formalities and requirements by having as few entry points as possible. If a Community-wide distributor cannot be found, an alternative is to have one main distributor/importer who works through one or two sub-distributors. Obviously the optimal strategy is to have a marketing company take care of the distribution and cover the whole Community market through a network of agents, but initially this will not usually be possible. Sales offices, which do not normally handle goods, will have a limited use in the Europe of 1992 unless they are working closely with the distributors.

Another factor that makes it necessary to service the Community market through distributors or a marketing company is the effect that the Europe 1992 process is having on product standards. Under the influence particularly of French and German consumers, much stricter common standards are emerging that are making it increasingly difficult to sell into the Community without offering servicing centres, which can only be provided by distributors or marketing subsidiaries or joint ventures.

Joint Ventures

Joint ventures can be used as an alternative to setting up a subsidiary in the case of both marketing and production companies. The Europe 1992 process offers small and medium-sized companies a new vehicle for cooperative ventures within the Community in the form of the European Economic Interest Grouping (EEIG).

The EEIG is a separate legal personality consisting of two or more companies or firms from different member states who have contracted to cooperate through the medium of the EEIG in one or more functional areas. It can be used to conduct various common activities such as marketing, R&D, production, tendering, distribution or sales promotion on behalf of its constituent companies, but it cannot pursue any independent activity or make any profits. It also cannot have more than 500 employees. In order to participate in an EEIG, an Alberta company would have to operate through a Community subsidiary. There are, however, certain advantages over the traditional joint venture.

The EEIG is governed by Community law so that, unlike the traditional joint venture subsidiary that is subject to national corporate law, it is free of the residual legal problems that still hamper cross-border corporate activity in the Community. In addition the formalities are minimal and the basic structure is fixed, which reduces some of the negotiation problems associated with setting up joint ventures.

One point that remains unsolved is the relationship between the EEIG Regulation and Community competition law. One view is that cooperation by way of an EEIG must still conform to existing Community rules; others suggest that EEIGs should be exempt from them or automatically eligible for negative clearances. The problem is somewhat attenuated by the fact that many small or medium-sized exporters

that will use an EEIG as a vehicle in preference to a joint venture will be excluded by their size from the Community competition rules.

CHOOSING A MARKETING STRATEGY FOR EUROPE

The procedure for choosing a market strategy for the European Community is much the same as for any other market. The Europe 1992 process primarily affects the decision whether to export or produce locally and the structuring of the various strategies. In addition, rationalization becomes particularly crucial and the process of prioritization is conducted somewhat differently.

Although the whole point of the Europe 1992 process is to create a single Community market, few companies have the resources to take on all twelve member states simultaneously. Certainly most Alberta companies will want to concentrate their limited resources, at least initially, on a few key countries. On the other hand, the Community dimension should not be overlooked because of the advantages of a wide market spread. Thus, the first step is for the company to look at all the member states and rank them in terms of market attractiveness, but to eliminate none at this stage.

The next step is to determine whether exporting is still possible or whether production will have to be carried out in Europe. The determination should be done separately for each individual member state. Often the result will be identical for all, but discrepancies are possible. The criteria are exactly the same as for any other market, but, as we have seen above, the Europe 1992 process increases somewhat the need for local production of both goods and services. Again the option of contract manufacturing is an alternative for small company exporters of goods. Service providers, however, have no choice but to set up their own facilities in Europe unless they are able to franchise the service. This is not possible for many types of services, such as engineering and other high-

tech services. The additional possibility of using an EEIG instead of a joint venture is another change brought about by the Europe 1992 process.

Wherever the choice is exporting, distributors or marketing companies (together with agents) will have to be used in the Europe of 1992. Sales offices on their own have limited use. Direct exporting is only feasible where the goods are being sent to one or perhaps two somewhat distant national markets. To this extent, structuring export entry is simpler when dealing with Europe except that, as with local production strategies, regard must be had to Community competition rules.

When considering licensing, a decision to license in a low priority member state should await the results of rationalizing the access strategies. Essentially at this stage, the company should decide whether it wishes to use licensing as its *general* strategy for the Community. It might do so as in other markets where it wishes to achieve a rapid market spread over the whole Community, or where it is dealing with a late life-cycle product or where the company has no resources to undertake itself to sell in Europe.

The company must now rationalize its strategies along the lines that are set out earlier. Under normal circumstances, production facilities and marketing companies should be centralized, distributors should be regionalized (or centralized if possible) and only agents should continue to operate on a national or sub-national basis. Furthermore, if local production of goods or services is established for any member state, then the others should usually be serviced from that facility. Rationalization is particularly important when dealing with the European Community in order to take advantage of the single market.

By this stage the company should have an integrated strategy for the whole Community. A typical strategy will be regional rather than national. If the company does not have the resources to carry out the whole plan, it will have to decide which regions of the Community to leave until later or to access by licensing. This should be done by considering the market attractiveness of the regions as a whole. This may cause problems where the really attractive markets are evenly distributed among the regions. Where licensing is chosen, this also should be done on a regional basis.

CONCLUSION

At present Alberta exports \$300 million of goods to the European Community, which is only 2% of its total exports and a minimal fraction of the Community's imports. Although the United States is a nearer and more accessible market, this is no reason to neglect the rich and growing European market.

Europe 1992 is creating new opportunities for Alberta business in the twelve member states that make up the European Community. It is also creating new problems for Alberta companies that wish to sell in Europe. On balance, however, the substantive advantages outweigh the disadvantages.

The real challenge of Europe 1992 is to develop the new marketing strategies that are needed to exploit the full potential of the single European market. That is the key that will unlock this enormous market for Alberta. The aim of this publication has been to help you, the Alberta company, find that key.



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